COMMITMENT AND PURPOSE FROM FUNCTION TO PROCESS

HYDRO
THE POWER OF COMMITMENT

NEWFOUNDLAND AND LABRADOR HYDRO 1999 ANNUAL REPORT

100-05179/

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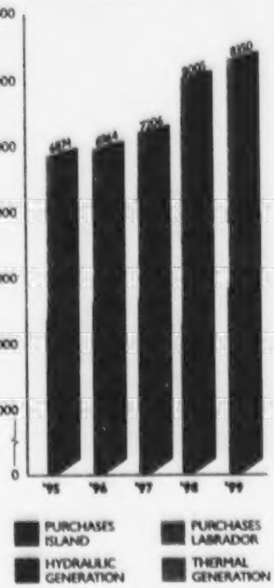
GIGAWATT HOURS



Island Gross Generation Capacity and Demand
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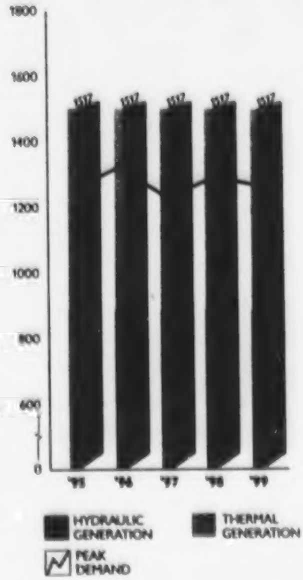

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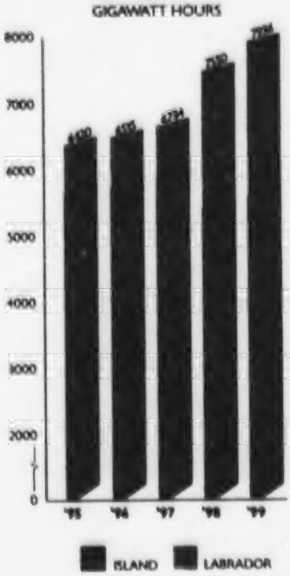
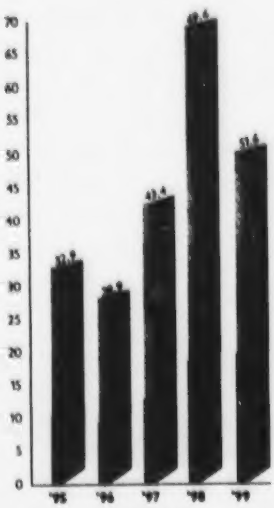


Consolidated Net Income
MILLIONS OF DOLLARS



See Note 2

CHAIRMAN AND PRESIDENT'S MESSAGE

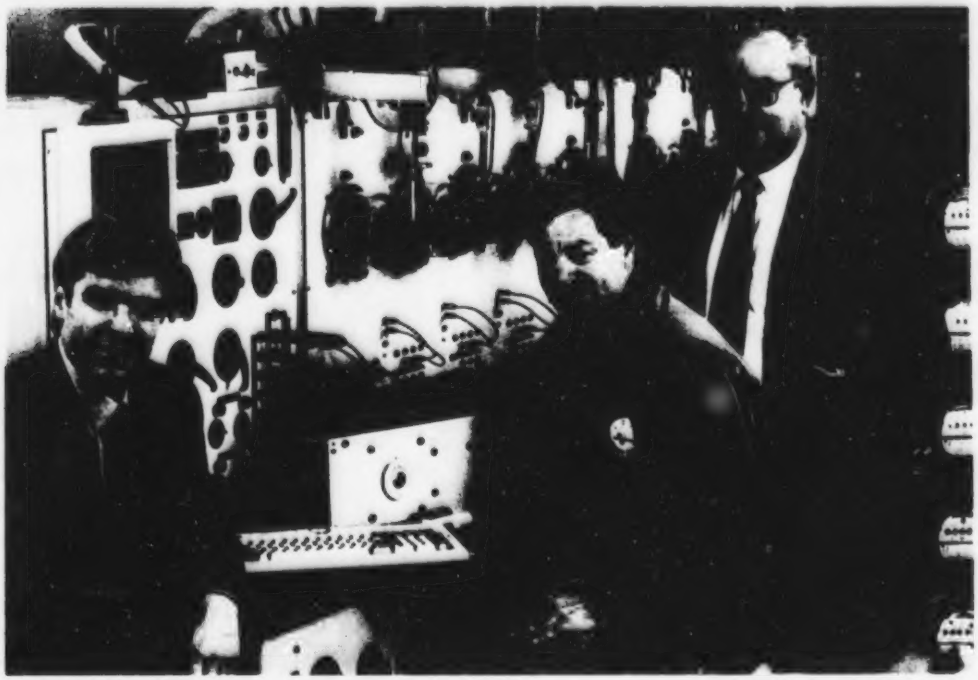
The HYDRO Group had another very successful year in 1999 recording a net income of $51.6 million. **BOTH HYDRO AND CF(L)CO HAVE PERFORMED WELL.** HYDRO recorded net income of $31.7 million after the $16.7 million write-down of the Roddickton Thermal Plant. HYDRO's share of CF(L)Co net income was $19.9 million. This success is attributable to a number of factors. Additional revenues as a result of recent agreements with Hydro-Québec for the sale of 130 MW of recall power under the Power Contract, and the sale of 682 MW of additional capacity under the Guaranteed Winter Availability Contract ("GWAC"), have had a very positive impact on our bottom line.

We have benefited from a combination of better than average inflows to our reservoirs, lower than forecasted fuel prices and lower borrowing costs. We end the year with a debt/equity ratio of 76/24 and an embedded cost of debt of 8.6% down from an earlier high of 11%. The continued ability to meet regulated revenue requirements is reflected in the fact that HYDRO has not had a general rate increase since 1992.

OUR ACCOMPLISHMENTS FOR THE YEAR INCLUDED THE COMPLETION OF THE IMPLEMENTATION PHASE OF PROJECT 2000 ("P2000"). This three-year program involved the implementation of fully integrated software applications for our Financial Management and Business Information Systems as well as the installation of a new mainframe computer. Refinements, as we move forward, will support the development of cost-effective systems and improve our business processes. Our Y2K readiness initiative, in conjunction with P2000, ensured the successful transition of our operations and business systems from December 31, 1999 to January 1, 2000. In September, a new Information Systems and Telecommunications Department ("IS&T") was formed to take the lead in information technology and our telecontrol operations, as we enhance our information technology capabilities and improve our business processes and operations with solid technical support.

Negotiations with Hydro-Québec on the Churchill River developments continued throughout the year. In June of 1999, the GWAC and associated Shareholder's Agreement were signed with Hydro-Québec, ensuring the continued financial viability of CF(L)Co.

HYDRO was created more than forty-five years ago to achieve the electrification of the province. It has had a relatively short history, which until the 1990's, was preoccupied with growth and expansion, and the building of systems to service sparsely populated areas within a large territory. The interconnection of the community of LaPoile in December concluded the current program of interconnecting isolated systems to the Island transmission grid. At present, we operate twenty-five isolated systems on the Island and along the Labrador coast; at one time there were more than eighty throughout the province.



Dean T. MacDonald, Chairman of the Board (left) with Cyril Chislett, Technologist (centre) and William E. Wells, President and Chief Executive Officer (right) in the St. John's meter shop.

At the end of the century and millennium, the HYDRO Group can look back over the past forty-five years of its history with some sense of pride and accomplishment. In 2000, the Silver Lights Club comprised of retired and long-service employees, will publish a history of the HYDRO Group from its inception to 1999. While the challenges of the past have been dealt with, we now have to confront the new challenges that lie ahead as we move into the 21st century. The values that have reshaped our society will inevitably reshape the way in which HYDRO will conduct its business in future.

IN CONTINUING TO FULFILL THE HYDRO MISSION AND MANDATE OF "LEAST-COST RELIABLE POWER", two of the more dominant issues relate to system reliability and the environment. To be successful, the corporation must operate in line with prevailing social attitudes and expectations. The impact of technology on all of the activities within our society dictates a much higher standard and expectation in relation to past definitions of "reliable energy". A major challenge for HYDRO in the first years of the new millennium is to ensure that our system reliability achieves its maximum potential.

WE ARE UNIQUE IN THAT WE OPERATE A POWER SYSTEM ON THE ISLAND OF NEWFOUNDLAND THAT IS ISOLATED FROM THE NORTH AMERICAN GRID. Within our system we have relatively large units of generation and many kilometers of radial transmission and distribution lines. The challenge will be to reduce power disruptions to a minimum throughout the system and maintain power delivery standards while continuing to be cost-effective.

It is essential to the provincial economy that we maintain our relative competitiveness in energy pricing. Our options now are more limited with respect to new sources of competitively-priced generation to service Island requirements. With a relatively low load growth forecast, we expect to meet the future energy requirements through a combination of small hydro developments and thermal power. Should differing circumstances emerge with respect to new capacity requirements, the challenge to maintain competitive electricity prices will increase. Of particular significance in the future for the Island portion of the province is whether natural gas may become an energy source for power generation.

WITHIN THE HYDRO GROUP WE ARE DETERMINED TO HAVE A WORLD-CLASS ENVIRONMENTAL MANAGEMENT SYSTEM TO ENSURE THAT WE MEET CURRENT AND EMERGING EXPECTATIONS WITH RESPECT TO ENVIRONMENTALLY RESPONSIBLE ACTIONS AND PROCEDURES. Consistent with changing social attitudes, the HYDRO Group recognizes the necessity of publicly acknowledging environmental impacts and social demands. We expect to proceed in an open and consultative manner that will facilitate the decision-making process. A consultative process should greatly assist in our dealing with environmental constraints and social issues. In 1999 we initiated a health risk assessment at our Holyrood Thermal Generating Station. This included public consultation and the involvement of our recently established "Community Liaison Committee". All stakeholders must be ready to seek

realistic and practical solutions to the environmental issues that exist and inevitably will arise. In 1999, we continued the commitment to have the environmental aspects of all major generating facilities within the HYDRO Group managed in compliance with the ISO 14001 standard. The 1998 registration of the Holyrood Thermal Generating Station was renewed for another year. All hydraulic generating facilities, including those at Churchill Falls, Labrador, had environmental management systems developed by the end of 1999 and registration is anticipated early in 2000. All HYDRO's rural and transmission operations are scheduled to become ISO 14001 compliant by 2002. These standards are based on audited compliance and continuous improvement in environmental management.

In order to achieve our objectives, we must be innovative and able to adapt to new circumstances, having a clear understanding of the need for change and a willingness to accept the changes that are necessary. **AS WE ENTER THE 21ST CENTURY, WE ARE CONFIDENT THAT WE HAVE THE FOUNDATION AND FRAMEWORK TO MEET NEW CHALLENGES AND FULFILL OUR COMMITMENT IN PROVIDING RELIABLE LEAST-COST ELECTRICITY.**

We wish to acknowledge the efforts of our employees in meeting the challenges of the past and in particular those that confronted them in 1999 and, as well, recognize their contributions to the significant achievements of the corporation. We would also like to thank the Board of Directors for their continuing support and guidance during the year.

WILLIAM E. WELLS
President and Chief Executive Officer

DEAN T. MACDONALD
Chairman of the Board

ENERGY PRODUCTION

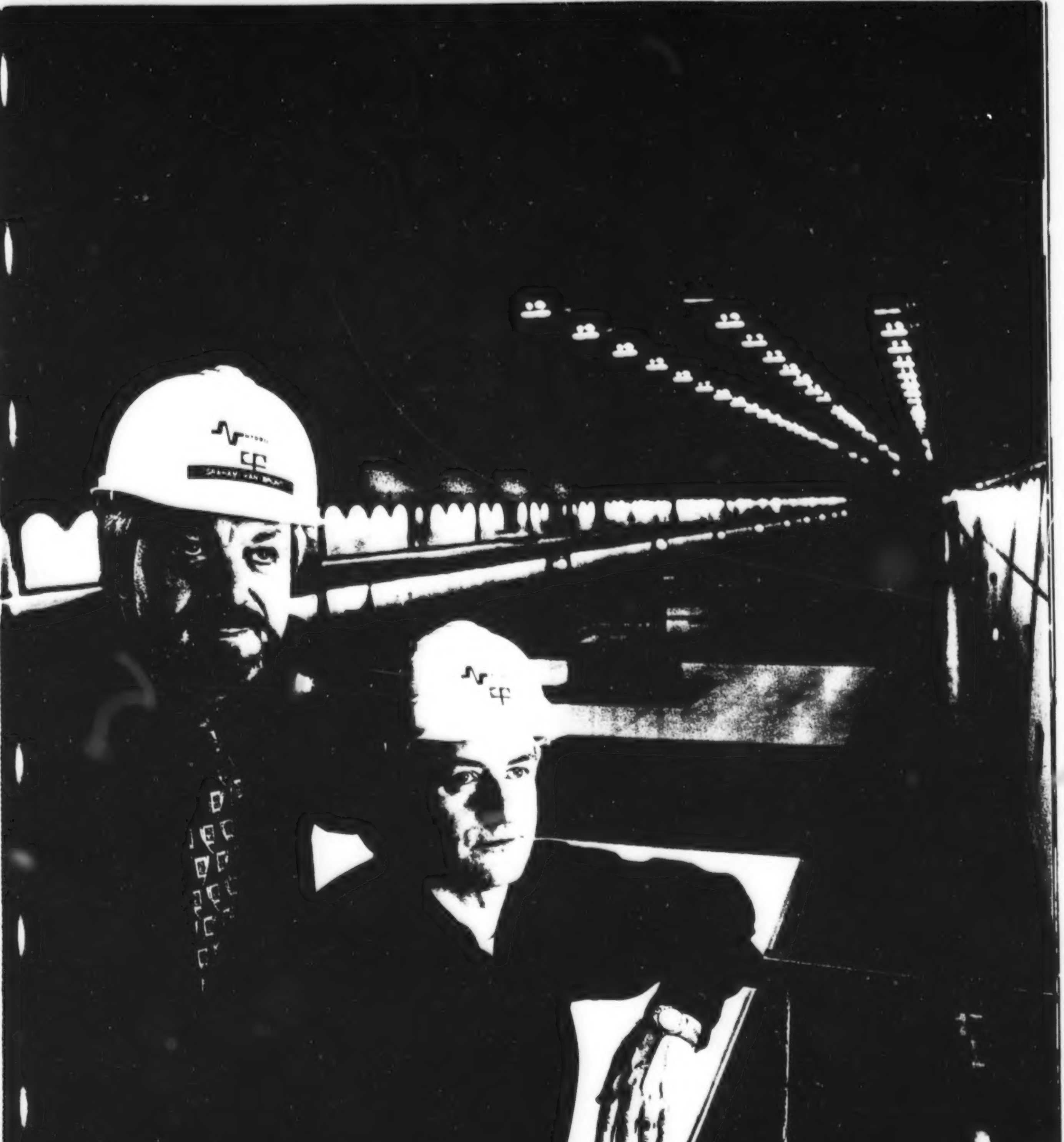
ISLAND INTERCONNECTED SYSTEM HYDRO's generating plants gross energy production was 5,812 GWh, up 3.4% from 1998. Production from hydraulic resources totaled 4,817 GWh, up 12.6% from 1998, as a result of record inflows into the Bay D'Espoir reservoirs from January to May. Thermal production from the Holyrood generating facility was 993 GWh with the gas turbines and diesels producing 2 GWh for peaking and emergency requirements. In 1999 HYDRO had its first complete year of purchases from two Non-Utility Generators purchasing 156 GWh during the year. HYDRO's peak for the year was 1,265 MW, below the record of 1,318 MW established in 1996.

ISOLATED RURAL SYSTEM Gross energy production on the isolated systems was 44.8 GWh, a reduction of 0.7% from 1998. Power purchases on the isolated system were 11.7 GWh consisting of 11.5 GWh from Hydro-Québec in Southern Labrador and 0.2 GWh from the Mary's Harbour hydro facility. These purchases represent an increase of 3.8% over 1998.

CHURCHILL FALLS Churchill Falls produced 34,612 GWh during the year, an 8.1% decrease from 1998. This was a result of a decrease in demand from Hydro-Québec and the loss of a generation unit for approximately two months.

ENERGY SALES

ISLAND INTERCONNECTED SYSTEM Energy sales during 1999 were up 2.9% from 1998 to 5,637 GWh. Industrial sales increased by 22.3% to 1,208 GWh. This was due to the resumption of normal loading for two of our industrial customers following a labour interruption in 1998. Sales to HYDRO's rural customers increased by 3.0% to 345 GWh in 1999. Sales to Newfoundland Power fell to 4,084 GWh, 1.8% lower than 1998, primarily due to warmer than normal temperatures during the winter months.



GRAHAM VAN BRUNT, DIRECTOR PLANT OPERATIONS AND MAINTENANCE (left) AND DON CULL, ASSET MANAGER (right) IN THE CHURCHILL FALLS UNDERGROUND POWERHOUSE

LABRADOR INTERCONNECTED SYSTEM HYDRO's sales to customers on the Labrador Interconnected system were 568 GWh, down 21.7% over 1998. This drop was primarily due to a decrease of 71.9% in sales to industrial customers offset slightly by a 1.4% increase in sales to rural customers to 433 GWh. Secondary sales decreased by 24.3% to 81.3 GWh.

LABRADOR EXPORT SALES HYDRO's exported energy to Hydro-Québec reached 1,731 GWh in 1999. This is an increase of 28.8% from 1998 due to the first full year of the export agreement and additional energy available resulting from the reduction in normal industrial customer requirements.

ISOLATED SYSTEMS Sales to rural customers on the isolated systems were 52 GWh, an increase of 5.9% over 1998, primarily in the Labrador isolated systems.

CF(L)Co CF(L)Co exported 29,674 GWh in 1999, a decrease of 9.5% from 1998. Sales to HYDRO were 2,376 GWh an increase of 194 GWh from 1998 due to HYDRO's first full year of operation under the arrangement for exports to Hydro-Québec. Deliveries to TWINCo were 1,756 GWh, down 7.7% from 1,903 GWh in 1998 due to a decrease in industrial sales.

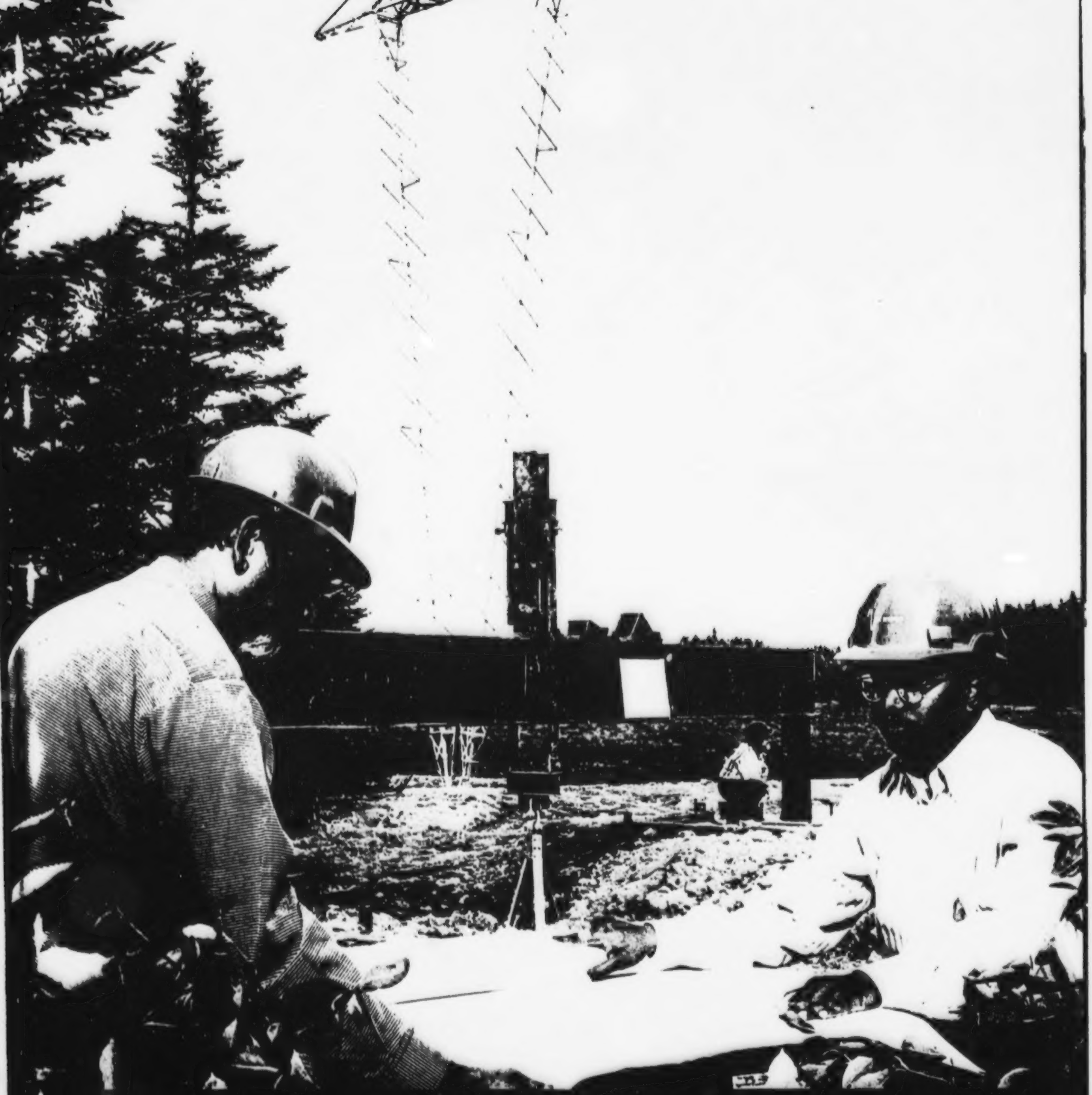
LAPOILE INTERCONNECTION The community of LaPoile is situated on the southwest coast of the Island. On December 1st, the 68 customers were connected to the Island main transmission line system. A low voltage line was built from Grand Bruit to LaPoile at a cost of $1.9 million. The project also involved the laying of two submarine cables across the LaPoile Bay. These customers will also now have the same lower electrical rates as others connected to the Island system. LaPoile became the fourth community in as many years to have their electrical service converted from diesel-powered generators to the province's main transmission line systems. This will conclude our current conversion program as the remaining 25 isolated systems appear not to offer a cost benefit opportunity.

EXTERNAL ENVIRONMENTAL AUDITOR DANIEL GARAND (left), AND DARREN MOORE HYDRO'S ASSET AND PLANT ENGINEERING SUPERINTENDENT (right) IN THE NO.2 BAY D'ESPOIR HYDRO GENERATING PLANT.

AVALON PENINSULA TRANSMISSION LINE UPGRADING HYDRO has begun a multi-year program to strengthen the major transmission line systems on the Avalon Peninsula. This program is being undertaken to improve the system's reliability during ice storms with a more rigorous and improved design. Additional towers, stronger conductor and hardware will be installed to strengthen the transmission lines which have experienced heavier ice loading since their initial design and construction. This year one half of the transmission line from Holyrood to Chapel Arm was completed; upon completion next year, the total cost will be $17.5 million. In 2000, the transmission line from Sunnyside to Come By Chance will be similarly strengthened to withstand heavier ice loading.

P2000 The completion of the implementation of an integrated suite of applications was a major project for HYDRO in 1999. This followed the replacement of our mainframe computer, which could not accommodate this new programming. The integrated suite of applications serve our financial, administrative and maintenance activities and provide the opportunity to improve and expand the information available for decision making. Throughout HYDRO, systems such as Payroll, Materials Management, Financial Reporting and Customer Information provide an online capability to better manage our resources and customer information. Essentially, the integrated suite has incorporated a set of comprehensive business practices as an alternative to designing one which is unique to a company.

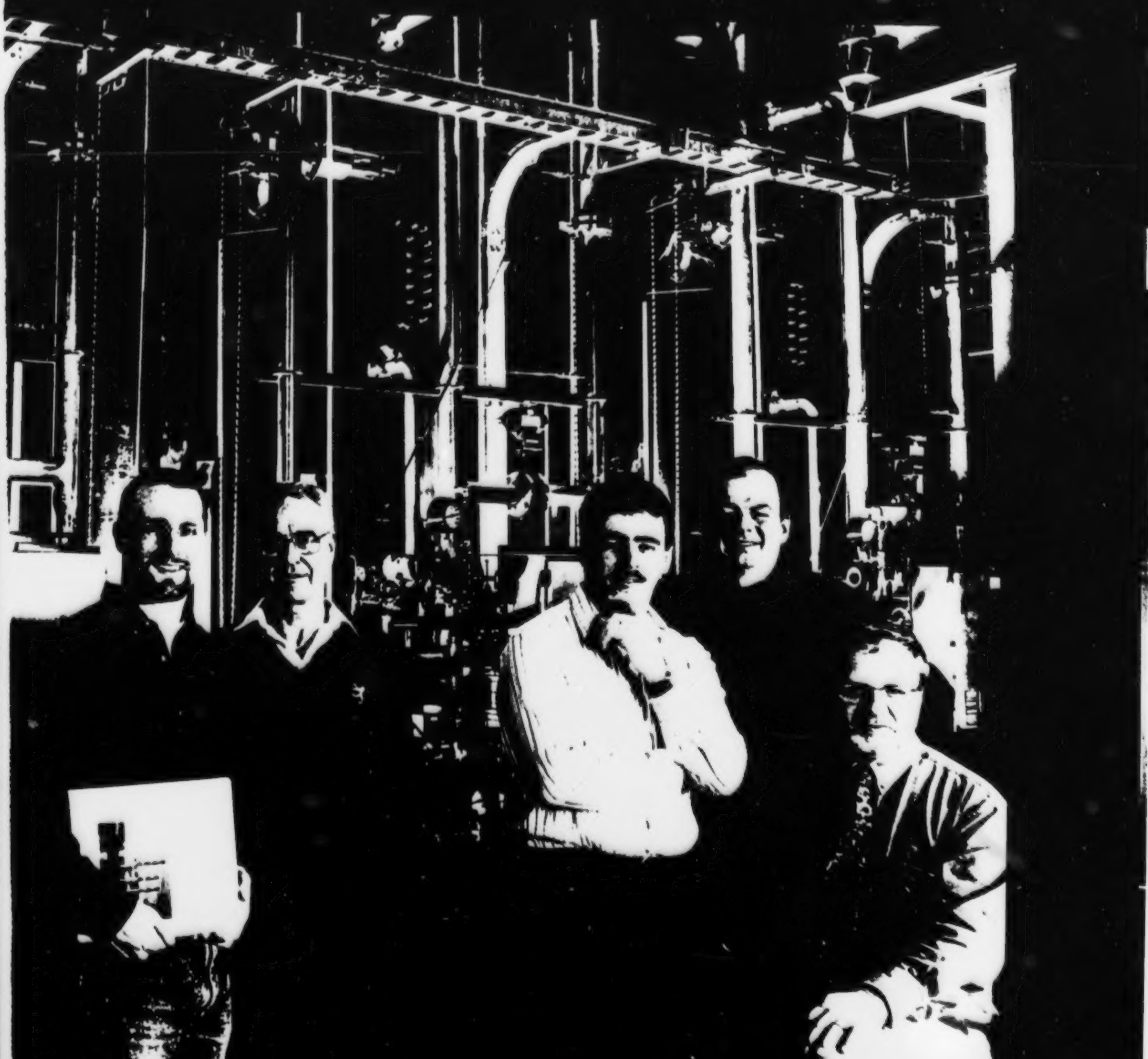
Y2K The world watched with a great deal of anticipation for the date change to the year 2000. Major companies and service providers, such as HYDRO, had conducted a comprehensive review program of their operations to identify and replace date sensitive equipment. As noted above, this review program also involved our financial and administrative systems which were replaced in 1998 and 1999 with a new integrated suite of applications. A contingency plan was also implemented throughout the province ensuring critical areas were as prepared as possible. The Holyrood Thermal Generating Station's date sensitive equipment was advanced a month ahead of time, inventories of critical supplies were brought to maximum levels and personnel were assigned to major locations for New Year's Eve. The considerable effort to ensure our system was reliable resulted in a successful conclusion as the New Year arrived without incident.



DR. ASIM HALDAR, SENIOR ENGINEER TECHNICAL SUPPORT (left)
AND DR. PRASAD YENEMULA, TRANSMISSION LINE DESIGN ENGINEER (right)
REVIEWING FOUNDATION TEST DRAWINGS FOR THE UPGRADING
OF THE AVALON PENINSULA TRANSMISSION LINES.

HOLYROOD HEALTH RISK ASSESSMENT

As part of its ongoing environmental monitoring process HYDRO commissioned a health risk assessment of the air emissions from the Holyrood Thermal Generating Station. The objective of the health risk assessment was to determine whether air emissions from the facility pose a potential health risk to local residents, and to identify which issues, if any, require further study. Two open houses were held in the area, the first to explain the process and to obtain the concerns of residents in the Holyrood/ Conception Bay area. The second open house was held to share the results with the residents. The study concluded that long-term adverse health effects would not be expected as a result of the air emissions. However, short-term health effects, such as respiratory irritation may occur in sensitive individuals on an infrequent basis. Several recommendations relating to the obtaining of more data to validate the results, and to further assess key issues, will be addressed, along with continuing our ongoing environmental monitoring process.



ENVIRONMENTAL MANAGEMENT TEAM OF THE HOLYROOD THERMAL GENERATING PLANT ACHIEVED ISO 14001 REGISTRATION. (left to right): MICHAEL TAYLOR, CHERYL OLIVER, HERB DOWDEN, SCOTT CROSBIE, GEORGE MOORE, TERRY LEDREW, ANDREW MACNEILL, GERRY NOSEWORTHY.

FUTURE

IN 2000 we will continue the upgrading of the Avalon Peninsula transmission lines to improve system reliability. In Nain, Labrador we are planning to construct a new powerhouse to better serve our customers. Geotechnical surveys will be carried out next year prior to the construction of a replacement digital microwave system. This will allow greater reliability for our Energy Control Centre to control and monitor the major terminal stations on the Avalon Peninsula. The two year project will cost $10.7 million and will reduce HYDRO's dependence on leased facilities. We are also planning for new sources of generation as our forecasted load on the Island system increases slightly each year.

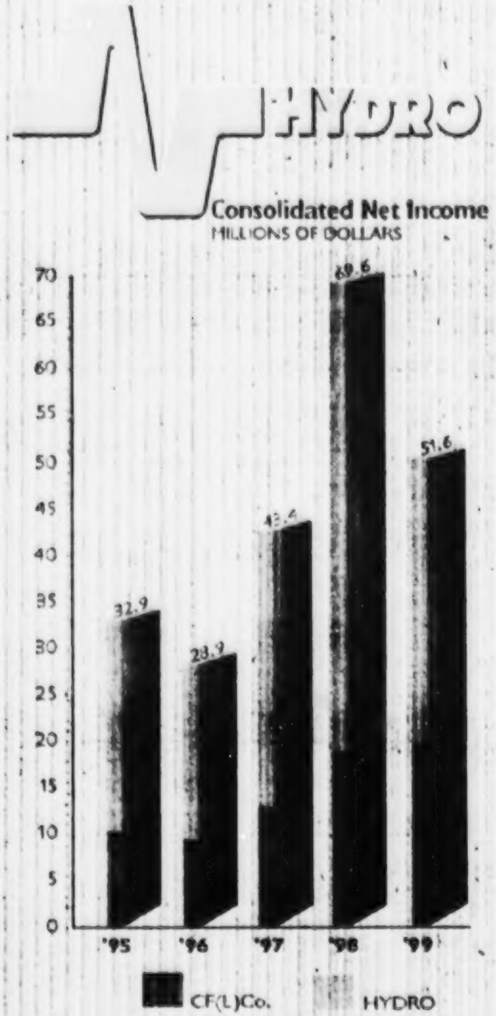
CLARENCE PAYNE, TECHNICAL OPERATOR (right), DOUG YOUNG, PLANT OPERATIONS SUPERVISOR WESTERN REGION (left) AND IVAN SNOW, PLANT OPERATOR (background) AT HINDS LAKE HYDRO GENERATING PLANT.

THE MISSION

THE MISSION

The mission of the **NEWFOUNDLAND AND LABRADOR HYDRO GROUP OF COMPANIES** is to provide electrical **POWER & ENERGY**, on behalf of the people of the Province, at the **LOWEST COST** consistent with reliable **SERVICE**, due consideration for the **ENVIRONMENT** and the **SAFETY** of our employees and the customers which we serve.

1999 FINANCIAL SECTION



NEWFOUNDLAND AND LABRADOR HYDRO

CONTENTS FINANCIAL SECTION

FINANCIAL REVIEW AND ANALYSIS

This review and analysis focuses on the consolidated operating results and financial position of the HYDRO Group of Companies, except where commentary is identified as relating to HYDRO only.

Effective June 18, 1999, HYDRO, CF(L)Co and Hydro-Québec entered into a shareholders' agreement which resulted in HYDRO adopting the proportionate consolidation method of accounting for its interest in CF(L)Co. (See Note 1 of the Notes to Consolidated Financial Statements, Principles of Consolidation.) Accordingly, the consolidated statement of income includes CF(L)Co's statement of income, on a line-by-line basis, up to June 18, 1999, and HYDRO's proportionate share (65.8%) of CF(L)Co's statement of income, on a line-by-line basis, after that date, with a corresponding reduction in non-controlling interest. There was no impact on consolidated net income. Furthermore, the consolidated balance sheet as at December 31, 1999 includes only HYDRO's proportionate share of CF(L)Co's assets and liabilities whereas the consolidated balance sheet at December 31, 1998 included 100% of CF(L)Co's assets and liabilities offset by non-controlling interest.

1999 Financial Performance Compared to Previous Year

millions of dollars	**1999**	1998
Total revenue	**406.2**	404.8
Total expenses	**334.8**	327.3
Write-down of capital assets	**16.7**	–
Net income	**51.6**	69.6
Dividends	**17.0**	16.8
Retained earnings	**586.1**	551.5

Results of Operations

NET INCOME

Net income for 1999 amounted to $51.6 million compared with $69.6 million for 1998. The decrease of $18.0 million was mainly due to the write-down of the Roddickton woodchip fired thermal generating station, which has been approved by the Public Utilities Board ("PUB") (See Note 3 of the Notes to Consolidated Financial Statements).

REVENUE

Total revenue for 1999 was $406.2 million, an increase of $1.4 million from 1998. Energy sales for 1999 were $384.4 million, a decrease of 1.9% or $7.4 million from 1998, primarily as a result of the change in accounting for HYDRO's interest in CF(L)Co. This was partially offset by higher sales of recall energy to Hydro-Québec and higher industrial sales. Recovery of costs included in the Rate Stabilization Plan increased from $10.9 million in 1998 to $15.4 million in 1999. A guaranteed winter availability contract between CF(L)Co and Hydro-Québec, retroactive to November 1998, also increased revenue by $3.6 million. Rentals and royalties and other revenue increased by $0.7 million.

EXPENSES

Total expenses for 1999 amounted to $334.8 million, an increase of 2.3% or $7.5 million over 1998. The total cost of fuels was $35.1 million in 1999, an increase of $8.2 million from 1998, primarily due to the changes in fuel prices, energy sales and hydraulic generation. Power purchases totaled $13.1 million in 1999, an increase of $6.0 million over 1998 due mainly to the full year's effect of new contracts with non-utility generators which became effective in the last quarter of 1998. Operations and administration expenses were $112.3 million in 1999, a decrease of $1.8 million from 1998, primarily due to the change in accounting for HYDRO's interest in CF(L)Co. The amortization of costs in the Rate Stabilization Plan increased from $10.9 million in 1998 to $15.4 million in 1999.

Depreciation expense was $51.3 million in 1999, an increase of $0.8 million over 1998 as a result of additions to plant in service. Total interest expense, which includes a debt guarantee fee, was $107.6 million in 1999, a reduction of $10.2 million from 1998 primarily due to the retirement of two high coupon bond issues, lower rates and lower balances.

In addition to the above, in 1999 HYDRO has recorded a loss of $16.7 million, associated with the write-down of the Roddickton woodchip fired thermal generating station, which is no longer required for the generation of electricity and which has been approved by the PUB.

CAPITAL EXPENDITURES

Expenditures for additions to fixed assets in 1999 amounted to $62.3 million compared to $33.7 million in 1998. The 1999 expenditures were for various additions to plant, transmission and distribution facilities throughout the Province. Expenditures included $25.9 million related to the potential development of hydro projects in Labrador, $10.3 million for major transmission line upgrades and $2.6 million for vehicles and heavy equipment.

The capital program can be financed from two sources, cash generated from operations and cash acquired through borrowing in the capital markets. The capital program for 1999 was financed entirely by cash from operations which amounted to $137.3 million, compared with $114.7 million in 1998.

DIVIDENDS

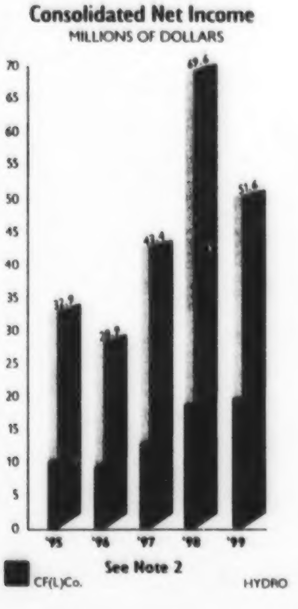
HYDRO commenced paying common dividends to the Province in 1995. HYDRO pays a dividend based on its net operating income and a further dividend based on the cash flow that HYDRO receives from its investment in CF(L)Co, net of debt servicing costs related to the debt that HYDRO incurred to finance its investment in CF(L)Co. The payments made by HYDRO in 1999 were $12.0 million from net operating income and $5.0 million from its investment in CF(L)Co.

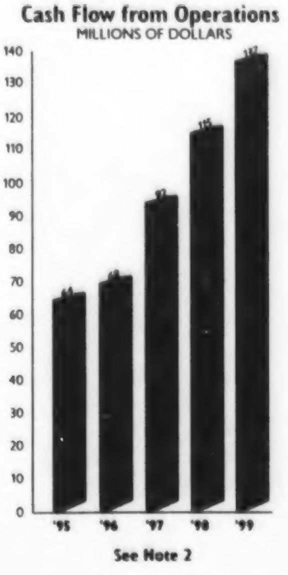
DEBT

HYDRO is continuing to actively manage its debt portfolio in an ongoing effort to minimize interest costs. Call options were exercised on two high coupon bond issues during 1999. These two bond issues, totaling $105 million par value and bearing coupons of 13.375% and 10.00%, were fully funded by sinking funds and did not require any new borrowing. The change in CF(L)Co's debt is a result of the change in accounting for HYDRO's interest in CF(L)Co, in addition to regular debt retirement.

Total debt is as shown in the following table:

millions of dollars	**1999**	1998	Increase (Decrease)
HYDRO			
Long-term debt	**1,042.9**	1,134.4	(91.5)
Promissory notes	**54.0**	83.1	(29.1)
	1,096.9	1,217.5	(120.6)
CF(L)Co			
Long-term debt	**220.8**	388.8	(168.0)
Total debt	**1,317.7**	1,606.3	(288.6)





Segmented Information

Segmented operating results are as follows:

	HYDRO	CF(L)Co[1]	Total	HYDRO	CF(L)Co	Total
millions of dollars	1999			1998		
Revenue						
Energy sales	317.0	77.7	394.7	304.2	95.5	399.7
Recovery of costs in RSP	15.4	–	15.4	10.9	–	10.9
	332.4	77.7	410.1	315.1	95.5	410.6
Expenses						
Operations and administration	85.3	27.0	112.3	81.0	33.0	114.0
Fuels	35.1	–	35.1	26.9	–	26.9
Amortization of costs in RSP	15.4	–	15.4	10.9	–	10.9
Power purchased	18.9	–	18.9	13.5	–	13.5
Depreciation	36.1	14.0	50.1	32.8	16.6	49.4
Interest	93.2	12.8	106.0	98.8	16.5	115.3
	284.0	53.8	337.8	263.9	66.1	330.0
Income before the following	48.4	23.9	72.3	51.2	29.4	80.6
Interest on debt financing the CF(L)Co investment and other dedicated costs	–	0.9	0.9	–	3.1	3.1
Income from operations	48.4	23.0	71.4	51.2	26.3	77.5
Write-down of capital assets	16.7	–	16.7	–	–	–
Income before Non-controlling interest	31.7	23.0	54.7	51.2	26.3	77.5
Non-controlling interest	–	3.1	3.1	–	7.9	7.9
Net income to HYDRO	31.7	19.9	51.6	51.2	18.4	69.6

(1) Effective June 18, 1999, HYDRO adopted the proportionate consolidation method of accounting for its interest in CF(L)Co. Accordingly, the results of CF(L)Co's operations for 1999 represent its total revenues and expenditures to June 18 and only HYDRO's proportionate share thereafter.

Financial Indicators (Hydro only)

Hydro calculates its debt/equity ratio and interest coverage on a non-consolidated basis. These are shown in the following table:

Year	Interest Coverage	Capital Structure % Debt	Capital Structure % Equity
*1999	1.33	76	24
*1998	1.42	77	23
1997	1.23	80	20
1996	1.15	81	19
1995	1.17	82	18

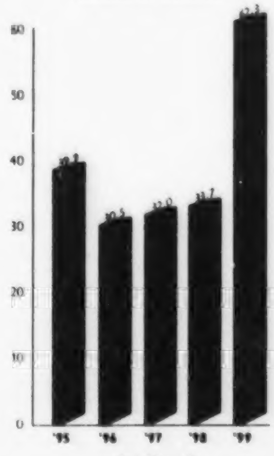
* Includes sales of recall energy to Hydro-Québec effective March 9, 1998.

Outlook

At this time there are no increases in electricity rates planned for 2000 except for adjustments arising from the normal operation of the Rate Stabilization Plan.

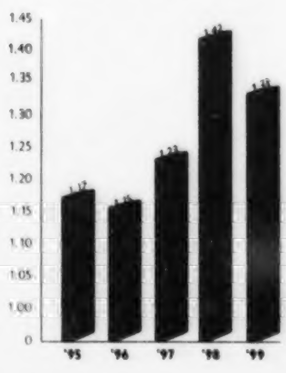
Throughout 1999, the Province of Newfoundland and Labrador and the Province of Québec have continued to examine the viability of hydro developments in Labrador and related projects in Québec.

Capital Expenditures
MILLIONS OF DOLLARS

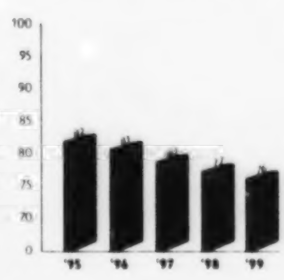


See Note 2

Interest Coverage
TIMES GROSS INTEREST



Debt to Total Capitalization
PERCENT



The accompanying consolidated financial statements of Newfoundland and Labrador HYDRO and all information in the Annual Report are the responsibility of Management and have been approved by the Board of Directors.

The financial statements have been prepared by Management in accordance with accounting principles generally accepted in Canada, applied on a basis consistent with that of the preceding year. The preparation of financial statements necessarily involves the use of estimates based on Management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to February 18, 2000. Financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities. An internal audit department independently evaluates the effectiveness of these internal controls on an ongoing basis, and reports its findings to Management and to the Audit Committee of the Board of Directors.

The responsibility of the external auditors, Ernst & Young LLP, is to express an independent, professional opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditors' Report outlines the scope of their examination and their opinion.

The Board of Directors, through its Audit Committee, is responsible for ensuring that Management fulfills its responsibility for financial reporting and internal controls. The Audit Committee meets regularly with Management, the internal auditors and the external auditors to satisfy itself that each group has properly discharged its respective responsibility and to review the financial statements before recommending approval by the Board of Directors. The internal and external auditors have full and free access to the Audit Committee, with and without the presence of Management.

D. W. OSMOND
Vice President, Finance
and Chief Financial Officer

WILLIAM E. WELLS
President and Chief
Executive Officer

AUDITORS' REPORT

To the Lieutenant-Governor in Council
Province of Newfoundland

We have audited the consolidated balance sheet of **Newfoundland and Labrador HYDRO** as at December 31, 1999 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Canada. As required by the HYDRO Corporation Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

St. John's, Newfoundland
Canada
February 18, 2000

Ernst & Young LLP
Chartered Accountants

CONSOLIDATED BALANCE SHEET

December 31, 1999 with comparative figures for 1998

millions of dollars	1999	1998
ASSETS		
Capital assets (Note 3)		
Capital assets in service	2,478.3	2,807.7
Less contributions in aid of construction	105.6	114.5
	2,372.7	2,693.2
Less accumulated depreciation	628.6	719.3
	1,744.1	1,973.9
Construction in progress	42.2	16.8
	1,786.3	1,990.7
Current assets		
Cash and cash equivalents	0.1	8.5
Short-term investments	8.1	5.3
Accounts receivable	67.1	90.9
Current portion of rate stabilization plan	17.0	17.0
Fuel and supplies at average cost	49.9	39.6
Prepaid expenses	1.1	2.7
	143.3	164.0
Sinking funds (Note 9)	28.8	113.3
Investments (Note 4)	13.0	21.7
Rate stabilization plan	17.5	31.7
Deferred charges (Note 6)	153.4	201.7
	2,142.3	2,523.1

See accompanying notes

CONSOLIDATED BALANCE SHEET

December 31, 1999 with comparative figures for 1998

millions of dollars	1999	1998
LIABILITIES AND SHAREHOLDER'S EQUITY		
Long-term debt (Note 7)	1,226.4	1,398.5
Current liabilities		
Bank indebtedness	4.8	4.7
Accounts payable and accrued liabilities	43.5	48.0
Accrued interest	27.0	33.9
Long-term debt due within one year (Note 7)	37.3	124.7
Promissory notes (Note 7)	54.0	83.1
Due to CF(L)Co	0.3	–
	166.9	294.4
Foreign exchange loss provision	8.0	7.0
Long-term payable (Note 8)	–	1.9
Non-controlling interest in CF(L)Co (Note 1)	–	114.9
Non-controlling interest in LCDC	14.8	14.8
Shareholder's equity		
Share capital		
Common shares of par value of $1 each		
Authorized 25,000,000 shares; issued 22,503,942 shares	22.5	22.5
Contributed capital (Note 4)		
Lower Churchill Development	15.4	15.4
Muskrat Falls Project	2.2	2.2
Gull Island Project	100.0	100.0
Retained earnings	586.1	551.5
	726.2	691.6
Commitments and contingencies (Note 11)		
	2,142.3	2,523.1

See accompanying notes

On behalf of the Board:

DIRECTOR

Judy Pound-Curtis

DIRECTOR

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended December 31, 1999 with comparative figures for 1998

millions of dollars	1999	1998
Revenue		
Energy sales	384.4	391.8
Recovery of costs in rate stabilization plan	15.4	10.9
Guaranteed winter availability	3.6	–
Rentals and royalties	0.4	0.5
Other	2.4	1.6
	406.2	404.8
Expenses		
Operations and administration	112.3	114.1
Fuels	35.1	26.9
Amortization of costs in rate stabilization plan	15.4	10.9
Power purchased	13.1	7.1
Depreciation	51.3	50.5
Interest (Note 10)	107.6	117.8
	334.8	327.3
Income from operations	71.4	77.5
Write-down of capital assets (Note 3)	16.7	–
Income before non-controlling interest	54.7	77.5
Non-controlling interest	3.1	7.9
Net income	51.6	69.6
Retained earnings, beginning of year	551.5	498.7
	603.1	568.3
Dividends	17.0	16.8
Retained earnings, end of year	586.1	551.5

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 1999 with comparative figures for 1998

millions of dollars	1999	1998
		(Note 2)
Cash provided by (used in)		
Operating activities		
Income before non-controlling interest	54.7	77.5
Adjusted for items not involving a cash flow		
Depreciation	51.3	50.5
Amortization of deferred charges	1.8	1.9
Rate stabilization plan	14.2	(7.3)
Write-down of capital assets	16.7	–
Other	3.6	2.7
	142.3	125.3
Change in non-cash balances related to operations		
Accounts receivable	12.7	(23.7)
Fuel and supplies	(13.0)	7.9
Prepaid expenses	1.1	1.0
Accounts payable and accrued liabilities	1.3	8.5
Accrued interest	(6.4)	(2.6)
Due to CF(L)Co	0.3	–
Adjustment for deferred foreign exchange	1.0	1.2
Adjustment for non-controlling interest	(0.2)	–
Long-term payable	(1.8)	(2.9)
	137.3	114.7
Financing activities		
Long-term debt issued	–	200.9
Long-term debt retired	(140.8)	(244.9)
Foreign exchange loss recovered	7.1	8.7
Dividends paid by a subsidiary to a non-controlling interest	(1.3)	(6.6)
Decrease in promissory notes	(29.1)	(126.8)
Dividends	(17.0)	(16.8)
	(181.1)	(185.5)
Investing activities		
Net additions to capital assets	(62.3)	(33.7)
Decrease (increase) in short-term investments	(6.7)	10.1
Increase in sinking funds	(13.8)	(34.6)
Sinking funds redeemed	117.6	129.1
Decrease in investments	4.8	4.1
Additions to deferred charges	(1.6)	(3.1)
Change in accounts payable related to investing activities	(2.7)	3.0
	35.3	74.9
Net (decrease) increase in cash	(8.5)	4.1
Cash position, beginning of year	3.8	(0.3)
Cash position, end of year	(4.7)	3.8
Cash is represented by		
Cash and cash equivalents	0.1	8.5
Bank indebtedness	(4.8)	(4.7)
	(4.7)	3.8

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1999

Newfoundland and Labrador HYDRO ("HYDRO") is incorporated under a special act of the Legislature of the Province of Newfoundland (the "Province") as a Crown corporation and its principal activity is the development, generation and sale of electric power. HYDRO and its subsidiary and jointly controlled companies, other than Twin Falls Power Corporation Limited, are exempt from paying income taxes under Section 149 (1) (d) of the Income Tax Act.

1. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in Canada and to conform with recommendations of the Board of Commissioners of Public Utilities of the Province of Newfoundland ("PUB").

Preparation of these consolidated financial statements requires the use of estimates and assumptions that affect the amounts reported and disclosed in these statements and related notes. Any variations between these estimates and actual amounts are not expected to materially affect reported results.

RATES AND REGULATIONS (EXCLUDING SALES BY SUBSIDIARIES)

The Province enacted legislation in 1996 that changes the manner in which HYDRO will be regulated. In future, the rates to be charged to all customers and HYDRO's earnings on a rate of return basis, will be fully regulated. HYDRO's capital expenditure program is also subject to review and approval by the PUB.

Rates charged rural customers do not recover the full costs of providing the service but HYDRO recovers the resulting deficit from other customers.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of HYDRO and its subsidiary companies, Gull Island Power Company Limited ("GIPCo"), (100% owned) and Lower Churchill Development Corporation Limited ("LCDC"), (51% owned).

Effective June 18, 1999, HYDRO, Churchill Falls (Labrador) Corporation Limited ("CF(L)Co") and Hydro-Québec entered into a shareholders' agreement which provided, among other matters, that certain of the strategic operating, financing and investing policies of CF(L)Co be subject to approval jointly by representatives of HYDRO and Hydro-Québec. Although HYDRO retains its 65.8% ownership interest, the agreement changed the nature of the relationship between HYDRO and Hydro-Québec, with respect to CF(L)Co, from that of majority and minority shareholders, respectively, to that of joint venturers. Accordingly, HYDRO has adopted the proportionate consolidation method of accounting for its interest in CF(L)Co subsequent to the effective date of the shareholders' agreement (the investment is fully consolidated for periods prior to the effective date).

1. Summary of Significant Accounting Policies (cont'd)

PRINCIPLES OF CONSOLIDATION (cont'd)

CF(L)Co is incorporated under the laws of Canada and has completed and commissioned a hydroelectric generating plant and related transmission facilities situated in Labrador and having a rated capacity of 5,428,000 kW ("CF(L)Co Project"). A power contract with Hydro-Québec, dated May 12, 1969 ("Power Contract") provides for the sale of substantially all the energy from the CF(L)Co Project until 2041. CF(L)Co receives certain benefits from Hydro-Québec, including significant revenues, under a guaranteed winter availability contract through 2041.

The cost of HYDRO's investment in CF(L)Co exceeded the equity in the book value of the net assets acquired by $77.1 million. This amount is assigned to capital assets and is being amortized on a straight-line basis at the rate of 1.5% per annum. As at December 31, 1999, $28.9 million (1998 - $27.7 million) had been amortized.

Under the terms and conditions of the Churchill Falls (Labrador) Corporation (Lease) Act, 1961, CF(L)Co must pay rentals and royalties to the Province annually.

A portion of HYDRO's shareholding in CF(L)Co is deposited in a voting trust pursuant to an agreement with Hydro-Québec.

GIPCo is incorporated under the laws of Canada. Its objective was to develop the hydroelectric potential at Gull Island on the Lower Churchill River in Labrador, and construct a direct current transmission system from Labrador to the island of Newfoundland (the "Gull Island Project"), (see Note 4).

LCDC is incorporated under the laws of Newfoundland and was established with the objective of developing all or part of the hydroelectric potential of the Lower Churchill River (the "Lower Churchill Development"), (see Note 4).

CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash equivalents and short-term investments consist primarily of Canadian treasury bills and banker's acceptances bearing interest rates of 4.60% to 5.10% (1998 - 4.65% to 5.47%). Those with original maturities at date of purchase of three months or less are classified as cash equivalents whereas those with original maturities beyond three months and less than twelve months are classified as short-term investments. Both are stated at cost, which approximates market value.

CAPITAL ASSETS AND DEPRECIATION

Expenditures for additions, improvements and renewals are capitalized and normal expenditures for maintenance and repairs are charged to operations.

HYDRO, GIPCo and LCDC

Construction in progress includes the costs incurred in preliminary feasibility studies, engineering and construction of new generation, transmission and distribution facilities. Interest is charged to construction in progress at rates equivalent to the weighted average cost of funds borrowed.

1. Summary of Significant Accounting Policies (cont'd)

CAPITAL ASSETS AND DEPRECIATION (cont'd)

Hydro, GIPCo and LCDC (cont'd)

Hydro has made no provision in its accounts to date for future removal and site restoration costs. The inclusion of these costs in the rate base is subject to the rate setting process.

Contributions in aid of construction are funds received from customers and governments toward the cost of capital assets. Contributions are treated as a reduction to capital assets and the net capital assets are depreciated.

Depreciation is calculated on hydroelectric generating plant and on transmission plant in service on the sinking fund method using interest factors ranging from 5.25% to 15.79%. Depreciation on other plant in service is calculated on the straight-line method. These methods are designed to fully amortize the cost of the facilities, after deducting contributions in aid of construction, over their estimated service lives.

Estimated service lives of the major assets are as follows:

Generation Plant	
Hydroelectric	50, 75 and 100 years
Thermal	25 and 30 years
Diesel	20 years
Transmission	
Lines	40 and 50 years
Switching stations	40 years
Distribution System	30 years
Other	3 to 50 years

CF(L)Co

CF(L)Co uses the group depreciation method for certain capital assets other than the generation plant, transmission and terminals and service facilities.

Depreciation is provided on a straight-line basis over the following estimated useful lives:

Generation Plant	
Hydroelectric	67 years
Transmission and Terminals	67 years
Service facilities	67 years
Other	5 to 100 years

CF(L)Co has made no provision in its accounts for future removal and site restoration costs as they cannot be estimated at this time.

Losses on other than normal retirements are charged to operations in the year incurred as adjustments to depreciation expense.

1. Summary of Significant Accounting Policies (cont'd)

DEBT DISCOUNT AND FINANCING EXPENSES

These costs are amortized on a straight-line basis over the lives of the respective debt issues.

RATE STABILIZATION PLAN

On January 1, 1986, HYDRO, having received the concurrence of the PUB, implemented a rate stabilization plan which primarily provides for the deferral of cost variances resulting from changes in fuel prices, levels of precipitation and load. The balance in the plan is amortized over a three year period. Adjustments required in retail rates to cover the amortization of the balance in the plan do not require a reference to the PUB and are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

PROMISSORY NOTES

Promissory Notes bear interest from 4.90% to 5.40% (1998 - 4.92% to 5.60%) with carrying value approximating fair value due to their short-term nature.

REVENUE RECOGNITION

Revenue is recorded on the basis of power deliveries made.

Deferred revenue represents amounts billed under the Power Contract in excess of energy delivered. Amounts related to energy delivered in excess of the base amount, as defined by the Power Contract, are recorded as receivables.

Differences between amounts related to energy delivered and the base amounts are determined annually and are subject to interest at 7% (1998 - 7%). These amounts are also subject to yearly review and adjustment.

FOREIGN CURRENCY TRANSLATION

Foreign currency transactions are translated into their Canadian dollar equivalent as follows:

(a) At the transaction date, each asset, liability, revenue or expense is translated using exchange rates in effect at that date.

(b) At each balance sheet date monetary assets and liabilities are translated using exchange rates in effect at that date.

(i) In the case of HYDRO, foreign exchange losses related to long-term debt, including current portion, are subject to the rate setting process. The PUB has accepted the inclusion by HYDRO of realized foreign exchange losses in rates charged to customers. Any such loss, net of any gain, not recovered due to the operation of the rate setting process is deferred to the time of the next rate hearing for inclusion in the new rates to be set at that time. Commencing in 1992, the PUB required HYDRO to provide a $1.0 million annual provision for a foreign exchange loss on its Swiss Franc denominated debt. This provision is included in interest expense.

1. Summary of Significant Accounting Policies (cont'd)

FOREIGN CURRENCY TRANSLATION (CONT'D)

(ii) Under the provisions of the Power Contract CF(L)Co's exposure for a foreign exchange loss is limited. CF(L)Co recovers a portion of the difference between actual foreign exchange rates prevailing at the settlement dates of its First Mortgage Bonds and a Weighted Average Exchange Rate as defined in the Power Contract. The recoverable portion of the unrealized foreign exchange loss is deferred until the settlement dates. The foreign exchange loss not recoverable under the Power Contract is being amortized to operations on a straight-line basis over the remaining life of the debt.

FINANCIAL INSTRUMENTS

HYDRO enters into interest rate swap agreements to manage interest rate risk. Net receipts or payments under the swap agreements are recorded as adjustments to interest expense.

PENSION PLAN

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan, to which contributions are made equally by the employers and employees.

OTHER EMPLOYEE FUTURE BENEFITS

The employers provide group life insurance and health care benefits on a cost-shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. The cost of providing these benefits is charged to operations as the benefits are incurred. Commencing in 2000, HYDRO will implement accrual accounting for these other employee future benefits, as required by new recommendations from the Canadian Institute of Chartered Accountants.

2. Accounting Change

STATEMENT OF CASH FLOWS

HYDRO has adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to Cash Flow Statements, the major effect of which is a change in the definition of cash equivalents and the exclusion of certain non-cash transactions. The change has been applied retroactively and prior years have been restated.

3. Capital Assets

millions of dollars	Capital Assets In Service	Contributions In Aid Of Construction	Accumulated Depreciation	Construction In Progress
			1999	
Generation Plant				
Hydroelectric	1,238.4	20.5	223.9	0.8
Thermal	222.4	–	157.5	0.2
Diesel	53.1	10.2	17.9	1.0
Transmission and Distribution	616.1	56.6	119.5	12.3
Service facilities	22.3	–	8.6	–
Project costs (Note 4)	96.9	–	–	–
Capital studies (Note 4)	24.9	–	–	–
Other	204.2	18.3	101.2	27.9
	2,478.3	105.6	628.6	42.2
millions of dollars			1998	
Generation Plant				
Hydroelectric	1,468.7	20.5	299.0	0.8
Thermal	244.3	–	155.5	1.9
Diesel	51.0	10.2	15.5	0.2
Transmission and Distribution	664.0	57.3	130.2	2.7
Service facilities	34.0	–	12.6	–
Project costs (Note 4)	97.0	–	–	–
Capital studies (Note 4)	25.0	–	–	–
Other	223.7	26.5	106.5	11.2
	2,807.7	114.5	719.3	16.8

Included in the above amounts are CF(L)Co assets in service amounting to $621.6 million (1998 - $942.8 million) which are pledged as collateral for long-term debt.

The Roddickton/St. Anthony area was interconnected to the main Island grid in 1996. At that time, a 5,000 kW woodchip fired thermal generating station and a 2,350 kW diesel generating station in Roddickton were removed from normal production and placed in stand-by mode for a period of time during which the performance of the new transmission interconnection was assessed. In November 1999, HYDRO applied to the PUB to abandon and decommission these generating stations. In February 2000, the PUB issued an order authorizing HYDRO to abandon the woodchip fired thermal generating station, resulting in a write-down of capital assets of $16.7 million. The PUB has deferred a decision on the diesel generating station (net carrying amount - $0.4 million).

4. Investments

Investments consist of the following:

millions of dollars	1999	1998
Lower Churchill Option	5.2	5.2
Government of Canada Coupons, at cost (market value $7.7; 1998 - $16.8)	7.8	16.5
	13.0	21.7

LCDC was incorporated in 1978 pursuant to the provisions of an agreement (the "Principal Agreement"), between the Province and the Government of Canada. The Province and the Government of Canada own equity interests of 51% and 49% of LCDC, respectively. The Principal Agreement provides that future issues of Class A common shares shall preserve, as nearly as possible, this ratio of beneficial ownership. HYDRO is the designate for the Province's shareholding in LCDC.

Upon agreement to continue with the Lower Churchill Development, GIPCo's assets and the hydroelectric development rights to the Lower Churchill River, (the "Water Rights"), will be acquired by LCDC pursuant to the provisions of an agreement between LCDC and the Province, (the "Option Agreement"). The purchase price in respect of GIPCo's assets will be a maximum of $100.0 million less $5.2 million representing the value assigned to 520 Class A common shares of LCDC issued pursuant to the signing of the Option Agreement. As consideration for GIPCo's assets, LCDC will issue a 10% Convertible Demand Debenture in the amount of $94.8 million. LCDC will issue 3,000 Class B common shares, without nominal or par value, to the Province in consideration of the Water Rights and the Province will transfer such shares to HYDRO. The parties have agreed that the value of each Class B common share is $10,000. The Option Agreement expires November 24, 2000 and it is not anticipated that there will be any loss upon sale of GIPCo's assets to LCDC.

HYDRO holds 1,540 Class A common shares of LCDC which have a stated value of $10,000 each. 520 shares were acquired in 1979 pursuant to signing of the Option Agreement and 510 shares were acquired in each of the years 1980 and 1981, by way of capital contributions from the Province.

5. Joint Venture

The following amounts included in the consolidated financial statements represent HYDRO's proportionate share of CF(L)Co's assets and liabilities at December 31, 1999, and its proportionate interest in CF(L)Co's operations from June 18, 1999 through December 31, 1999. The investment is fully consolidated prior to June 18, 1999 (Note 1).

millions of dollars	1999
Current assets	31.6
Long-term assets	423.8
Current liabilities	34.2
Long-term liabilities	195.6
Revenues	30.3
Expenses	22.1
Net income	8.2
Cash provided by (used in)	
Operating activities	14.7
Financing activities	(9.5)
Investing activities	2.1

6. Deferred Charges

millions of dollars	1999	1998
Unamortized debt discount, financing expenses and other	15.2	15.8
Foreign exchange losses		
HYDRO - Realized	96.3	96.3
CF(L)Co		
Recoverable under the Power Contract	41.4	87.8
Unrecoverable portion to be amortized	6.2	11.7
	143.9	195.8
Less current portion recoverable included in current assets	5.7	9.9
	138.2	185.9
	153.4	201.7

7. Long-Term Debt

	HYDRO	CF(L)Co	Total	HYDRO	CF(L)Co	Total
millions of dollars		1999			1998	
Summary of long-term debt						
Long-term debt	1,042.9	220.8	1,263.7	1,134.4	388.8	1,523.2
Less payments due within one year	12.1	25.2	37.3	87.1	37.6	124.7
	1,030.8	195.6	1,226.4	1,047.3	351.2	1,398.5

Required repayments of long-term debt and sinking fund requirements over the next five years will be as follows:

millions of dollars	2000	2001	2002	2003	2004
	37.3	189.7	141.7	44.1	28.0

The payments due within one year include sinking fund requirements of $5.8 million (1998 - $6.2 million).

Details of long-term debt are as follows:

HYDRO

Series	Interest Rate %	Year of Issue	Call Date	Year of Maturity	1999	1998	
millions of dollars							
N	13.375	1981	1999	2001	–	75.0	(a)
W	10.750	1991	–	2001	150.0	150.0	
	10.000	1977	1999	2002	–	30.0	(a)
Z	5.250	1997	–	2002	100.0	100.0	
V	10.500	1989	–	2014	125.0	125.0	(a)
X	10.250	1992	–	2017	150.0	150.0	(a)
Y	8.400	1996	–	2026	300.0	300.0	(a)
AA	5.500	1998	–	2008	200.0	200.0	
Total debentures					1,025.0	1,130.0	
Less sinking fund investments in own debentures					29.7	49.0	
					995.3	1,081.0	
Government of Canada loans at 5.25% to 7.91% maturing in 2006 to 2014					41.6	46.4	
Other					6.0	7.0	
					1,042.9	1,134.4	
Less payments due within one year					12.1	87.1	
					1,030.8	1,047.3	

(a) Sinking funds have been established for these issues.

7. Long-Term Debt (cont'd)

HYDRO (cont'd)

Promissory notes, debentures and long-term loans are unsecured and unconditionally guaranteed as to principal and interest and where applicable, sinking fund payments, by the Province. The Province charges HYDRO a guarantee fee of one percent annually on the total debt (net of sinking funds) guaranteed by the Province, outstanding as of the preceding December 31.

CF(L)Co

millions of dollars	1999	1998
First Mortgage Bonds		
7.750% Series A due December 15, 2007		
(U.S. $114.5; 1998 - U.S. $196.3)	165.3	300.9
7.875% Series B due December 15, 2007	11.6	19.8
General Mortgage Bonds		
7.500% due December 15, 2010	43.9	68.1
	220.8	388.8
Less payments due within one year	25.2	37.6
	195.6	351.2

The First Mortgage Bonds, Series A and B, are repayable in fixed semi-annual and in contingent annual sinking fund installments. There has been no contingent repayments in the last five years.

The Deed of Trust and Mortgage securing the General Mortgage Bonds provides for semi-annual sinking fund payments and a balloon payment at maturity. Each semi-annual payment is equal to 1% of the aggregate principal amount outstanding on January 1, preceding each payment date. The General Mortgage Bonds are subordinate to the First Mortgage Bonds.

Due to the contingent nature of the amounts of certain of the sinking fund installments, it is not possible to be precise concerning long-term debt repayments over the next five years; however fixed sinking fund payments are estimated to average $26.3 million in each of the years 2000 to 2004 inclusive.

Under the terms of long-term debt instruments, CF(L)Co may pay cash dividends only out of earnings, as defined, accumulated from September 1, 1976.

8. Long-Term Payable

The long-term payable to Hydro-Québec bears interest at 7% per annum and is repayable over a four year period which commenced in September 1996. The current portion of $1.3 million (1998 - $2.9 million) is included in accounts payable and accrued liabilities.

9. Financial Instruments

FAIR VALUE

The estimated fair values of financial instruments as at December 31, 1999 and 1998 are based on relevant market prices and information available at the time. The fair value of long-term debt and the long-term payable is estimated based on the quoted market price for the same or similar debt instruments. The fair value estimates below are not necessarily indicative of the amounts that HYDRO might receive or incur in actual market transactions. As a significant number of HYDRO's assets and liabilities, including fuels and supplies and capital assets, do not meet the definition of financial instruments, the fair value estimates below do not reflect the fair value of HYDRO as a whole.

	Carrying Value	Fair Value	Carrying Value	Fair Value
millions of dollars	1999		1998	
Financial Assets				
Sinking funds	28.8	27.3	113.3	118.3
Financial Liabilities				
Long-term debt including amount due within one year	1,263.7	1,398.9	1,523.2	1,792.4
Long-term payable including amount due within one year	1.3	1.1	4.8	4.6
Interest rate swaps	–	0.2	–	–

Cash and cash equivalents, short-term investments, accounts receivable, bank indebtedness, accounts payable, accrued interest and promissory notes are all short-term in nature and as such, their carrying value approximates fair value. At December 31, 1999 of the total accounts receivable balance outstanding approximately 38.14% (1998 - 29.57%) is due from a regulated utility, and 36.04% (1998 - 41.94%) from Hydro-Québec.

SINKING FUNDS

Sinking fund investments consist of bonds, debentures, promissory notes and coupons issued by, or guaranteed by, the Government of Canada or any province of Canada, and have maturity dates ranging from 1999 to 2026. HYDRO debentures which Management intends to hold to maturity are deducted from long-term debt while all other sinking fund investments are shown separately on the balance sheet as assets. Annual contributions to the various sinking funds are as per bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 5.48% to 10.55% (1998 - 5.80% to 11.68%).

9. Financial Instruments (cont'd)

INTEREST RATE RISK

HYDRO has entered into an interest rate swap agreement with a major Canadian financial institution in order to manage the interest rate exposure associated with its debt. The notional amount of the swap ($100 million) does not represent an amount exchanged between the parties and is not a measure of HYDRO's exposure resulting from the use of swaps. HYDRO receives a fixed rate of 4.62% and pays the three month Canadian Dealers Offered Rate which is fixed quarterly. The agreement expires in March, 2000.

10. Interest Expense

millions of dollars	**1999**	1998
Gross interest		
Long-term debt	**123.5**	155.3
Promissory notes	**3.6**	7.3
	127.1	162.6
Amortization of debt discount and financing expenses	**1.4**	1.8
Provision for foreign exchange losses	**1.0**	1.0
	129.5	165.4
Less		
Recovered from Hydro-Québec (a)	**16.5**	21.8
Interest capitalized during construction	**2.0**	0.4
Interest earned	**14.4**	36.8
Net interest expense	**96.6**	106.4
Debt guarantee fee	**11.0**	11.4
Net interest and guarantee fee	**107.6**	117.8

(a) Under the terms of the Power Contract, CF(L)Co recovers the difference between interest calculated at the rates prescribed in the Power Contract and interest paid on its long-term debt.

Also, Churchill Falls can request HYDRO and Hydro-Québec to make advances against the issue of Subordinated Debt Obligations, to service its debt and to cover expenses if funds are not otherwise available. If such request fails to attract sufficient advances, Churchill Falls can require Hydro-Québec to make additional advances, against the issue of units of Subordinate Debentures and shares of common stock, to service its debt and to cover its expenses that remain unfunded.

11. Commitments and Contingencies

(a) Under the terms of a sublease with Twin Falls, expiring on December 31, 2014, CF(L)Co is required to deliver to Twin Falls, at an agreed price, horsepower equivalent to the installed horsepower of the Twin Falls plant and to maintain Twin Falls' plant and equipment.

(b) HYDRO has received claims instituted by various companies with respect to construction costs, outages and plant shutdowns. The aggregate of these claims, less any amounts that have been provided for in HYDRO's financial statements is approximately $2.3 million (1998 - $2.2 million). The final resolution of these matters is currently under negotiation.

Legal proceedings have been commenced against HYDRO by one of its customers claiming approximately $22.7 million related to outages and plant shutdowns. HYDRO is defending this claim and Management believes that this claim will not be successful.

(c) Outstanding commitments for capital projects total approximately $18.8 million at December 31, 1999 (1998 - $16.0 million).

12. Comparative Figures

Certain of the 1998 comparative figures have been reclassified to conform with the 1999 financial statement presentation.

FINANCIAL STATISTICS

Years ended December 31

in millions of dollars	1999(1)	1998	1997	1996	1995
OPERATING RESULTS					
Revenue					
Energy sales	**384.4**	391.8	376.9	364.7	365.5
Rentals and royalties	**0.4**	0.5	0.5	0.5	0.7
Recovery of costs in RSP	**15.4**	10.9	7.2	1.5	–
Guaranteed Winter Availability	**3.6**	–	–	–	–
Other	**2.4**	1.6	1.2	2.4	3.4
	406.2	404.8	385.8	369.1	369.6
Expenses					
Operations and administration	**112.3**	114.1	106.9	108.7	108.1
Amortization of RSP costs	**15.4**	10.9	7.2	1.5	–
Fuels and power purchased	**48.2**	34.0	46.4	43.8	42.3
Depreciation	**51.3**	50.5	48.0	46.8	45.7
Interest	**107.6**	117.8	128.4	134.6	134.8
	334.8	327.3	336.9	335.4	330.9
Income from Operations	**71.4**	77.5	48.9	33.7	38.7
Write Down of Capital Assets	**16.7**	–	–	–	–
Net Income Before Non-controlling Interest	**54.7**	77.5	48.9	33.7	38.7
Non-controlling Interest	**3.1**	7.9	5.5	4.8	5.8
Net Income	**51.6**	69.6	43.4	28.9	32.9
Contributions to Net Income					
HYDRO Corporate	**31.7**	51.2	30.9	20.1	22.6
CF(L)Co	**19.9**	18.4	12.5	8.8	10.3
FINANCIAL POSITION					
Total Current Assets	**143.3**	164.0	146.6	170.7	156.1
Total Current Liabilities	**166.9**	294.4	433.0	324.4	427.3
Net Working Capital	**(23.6)**	(130.4)	(286.4)	(153.7)	(271.2)
Fixed Assets	**2,414.9**	2,710.0	2,677.5	2,649.8	2,601.3
Accumulated Depreciation	**628.6**	719.3	669.2	624.0	559.6
Fixed Assets, Net	**1,786.3**	1,990.7	2,008.3	2,025.8	2,041.7
Sinking Funds	**28.8**	113.3	144.3	203.1	325.9
Other Assets	**183.9**	255.1	245.8	220.8	227.4
Long-Term Debt	**1,226.4**	1,398.5	1,334.0	1,538.7	1,584.6
Other Liabilities	**22.8**	138.6	139.2	141.0	138.9
Shareholder's Equity	**726.2**	691.6	638.8	616.3	600.3
EMPLOYEES AT YEAR END					
Permanent	**1,069**	1,078	1,097	1,098	1,155
Temporary	**207**	196	156	155	180
Total	**1,276**	1,274	1,253	1,253	1,335

(1) Effective June 18, 1999, HYDRO adopted the proportionate consolidation method of accounting for its interest in CF(L)Co (65.8%)

OPERATING STATISTICS

Years ended December 31

	1999	1998	1997	1996	1995
INSTALLED GENERATING CAPACITY(rated MW)					
CF(L)Co	5,428	5,428	5,428	5,428	5,428
TWINCo	225	225	225	225	225
HYDRO					
Hydraulic	899	899	899	899	899
Thermal	645	645	645	645	645
Diesel	58	58	58	58	57
Total	7,255	7,255	7,255	7,255	7,254
ELECTRIC ENERGY GENERATED, NET (GWh)					
CF(L)Co	34,508	37,543	33,727	28,998	29,945
HYDRO					
Hydraulic	4,801	4,260	4,628	4,574	4,394
Thermal	914	1,255	1,528	1,409	1,554
Diesel	41	41	41	64	74
Total	40,264	43,099	39,924	35,045	35,967
ELECTRIC ENERGY SALES (GWh)					
CF(L)Co					
Export	29,674	32,793	30,301	25,748	26,693
HYDRO					
Utility	4,084	4,157	4,306	4,187	4,214
Rural	830	811	815	765	751
Industrial	1,343	1,286	1,660	1,637	1,541
Export	1,731	1,344(1)	–	–	–
Total	37,662	40,391	37,082	32,337	33,199
AVERAGE SALES REVENUE (cents per kWh)					
CF(L)Co					
Export	0.27	0.27	0.27	0.29	0.30
HYDRO					
Utility	4.49	4.49	4.51	4.53	4.53
Rural	5.54	5.46	5.45	5.65	5.76
Industrial	3.58	3.26	3.24	3.27	3.27
Export	2.22	2.21(1)	–	–	–
TRANSMISSION LINES (kilometres)					
CF(L)Co					
735 kV	608	608	608	608	608
230 kV	431	431	431	431	431
HYDRO					
230 kV	1,531	1,531	1,531	1,531	1,531
138 kV	1,482	1,482	1,482	1,482	1,431
69 kV	636	636	636	636	588
Total	4,688	4,688	4,688	4,688	4,589
PEAK DEMAND (MW)					
CF(L)Co System	5,590	5,602	5,584	5,577	5,690
HYDRO System	1,265	1,295	1,229	1,318	1,250

(1) Restated to 1999 format.

COMMITMENT AND PURPOSE
FROM FUNCTION TO PROCESS

HYDRO

NEWFOUNDLAND AND LABRADOR HYDRO

BOARD OF DIRECTORS

NEWFOUNDLAND AND LABRADOR HYDRO

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Terry Goodyear

Trudy Pound - Curtis

Barbara Fong

William Kelly

Deborah Thiel

Mark Dobbin

Wayne Trask

William E. Wells

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Thierry Vandal

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Len Stirling

Bob Warr

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Victor Young

T. David Collett, ex-officio

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Avit Ouellet

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David W. Reeves

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DOBBIN, DEAN T. MACDONALD, TRUDY POUND-CURTIS, BARBARA FONG,
TERRY GOODYEAR, BRIAN MAYNARD.

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Assistant Treasurer

PETER HICKMAN
Assistant Corporate Secretary

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Vice-President Finance and Chief Financial Officer

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General Manager

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Corporate Controller and Treasurer

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PETER HICKMAN
Assistant Corporate Secretary

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ANDREW MacNEILL
General Manager

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Corporate Controller and Treasurer

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Assistant Treasurer

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Assistant Corporate Secretary

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Vice-President Operations and Engineering

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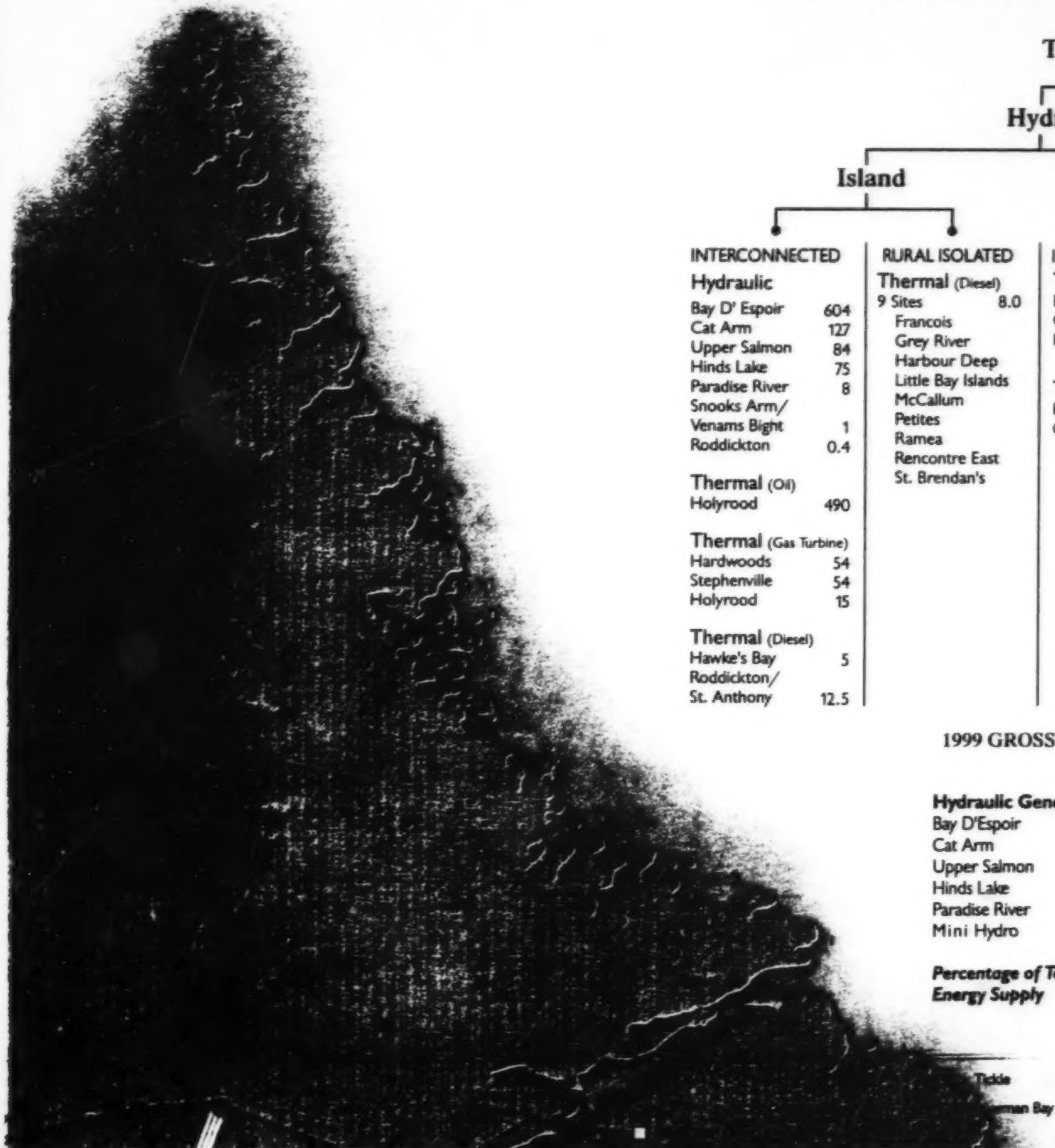
Vice-President Human Resources, General Counsel and Corporate Secretary

JOHN C. ROBERTS
Corporate Controller

MARK BRADBURY
Treasurer

GERALD BOWERS
Assistant Treasurer

PETER HICKMAN
Assistant Corporate Secretary



1999 INSTALLED GENERATING CAPACITY

Megawatts (MW)

The Hydro Group

Hydro — Island

INTERCONNECTED

Hydraulic	
Bay D' Espoir	604
Cat Arm	127
Upper Salmon	84
Hinds Lake	75
Paradise River	8
Snooks Arm/ Venams Bight	1
Roddickton	0.4

Thermal (Oil)	
Holyrood	490

Thermal (Gas Turbine)	
Hardwoods	54
Stephenville	54
Holyrood	15

Thermal (Diesel)	
Hawke's Bay	5
Roddickton/ St. Anthony	12.5

RURAL ISOLATED

Thermal (Diesel)	
9 Sites	8.0

- Francois
- Grey River
- Harbour Deep
- Little Bay Islands
- McCallum
- Petites
- Ramea
- Rencontre East
- St. Brendan's

Hydro — Labrador

INTERCONNECTED

Thermal (Diesel)	
Happy Valley-Goose Bay	11.7
Mud Lake	0.2

Thermal (Gas Turbine)	
Happy Valley-Goose Bay	27.0

RURAL ISOLATED

Thermal (Diesel)	
16 Sites	20.0

- Black Tickle
- Cartwright
- Charlottetown
- Davis Inlet
- Hopedale
- L'Anse-au-Loup
- Makkovick
- Mary's Harbour
- Nain
- Norman Bay
- Paradise River
- Port Hope Simpson
- Postville
- Rigolet
- St. Lewis
- Williams Harbour

CF(L)Co — Labrador

INTERCONNECTED

Hydraulic	
Churchill Falls	5,428

1999 GROSS ISLAND INTERCONNECTED ENERGY SUPPLY

Gigawatt hours (GWh)

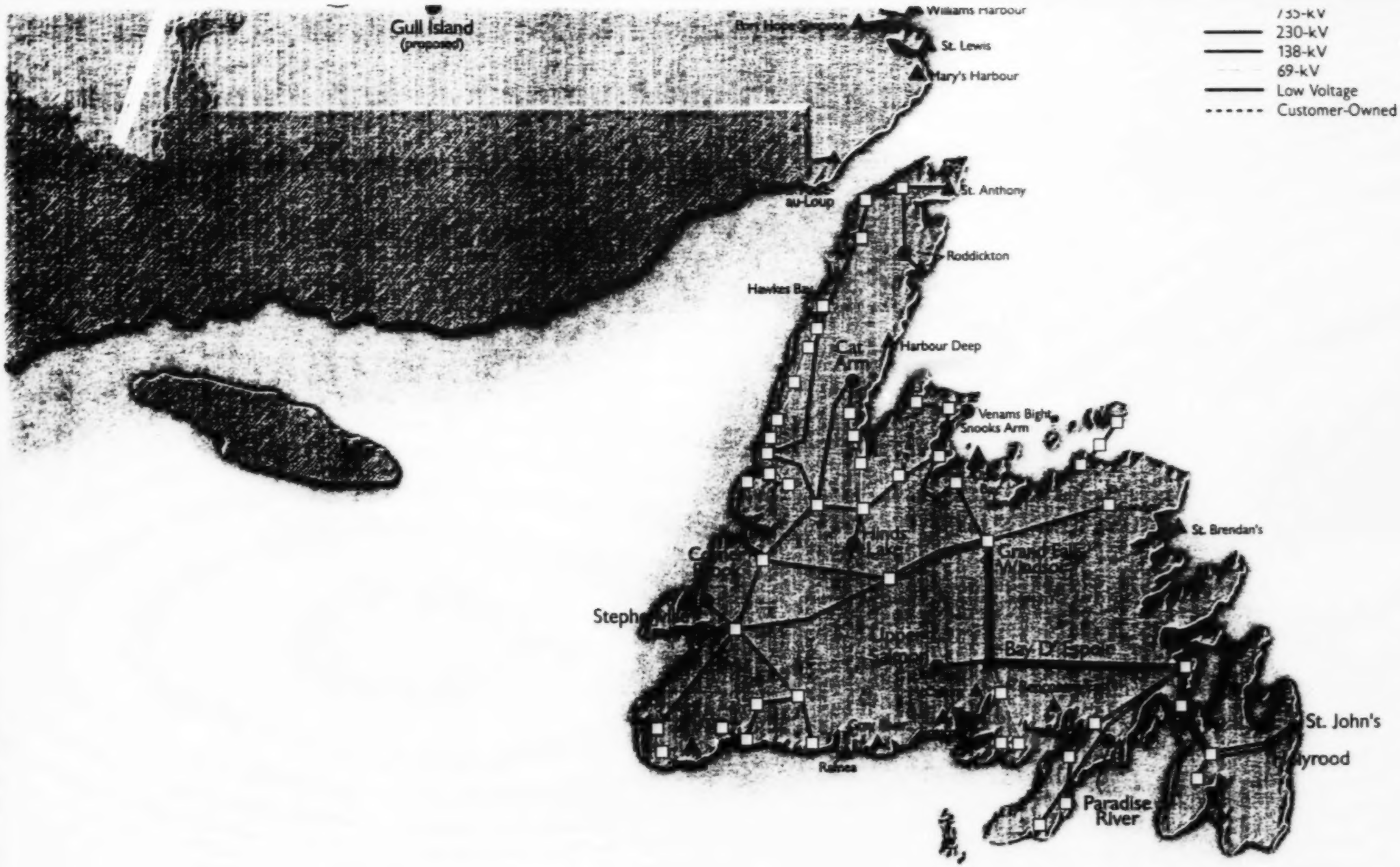
Hydraulic Generation	
Bay D'Espoir	3,096
Cat Arm	676
Upper Salmon	653
Hinds Lake	355
Paradise River	38
Mini Hydro	7
	4,825
Percentage of Total Energy Supply	81%

Hydraulic Power Purchase	162
Percentage of Total Energy Supply	2%

Thermal Generation	
Holyrood	993
Gas Turbine and Diesel	2
	995
Percentage of Total Energy Supply	17%

LEGEND

- ● *Generating Station*
- □ *Terminal Station*
- ▲ *Diesel Plant*


735-kV
230-kV
138-kV
69-kV
Low Voltage
Customer-Owned
Gull Island
(proposed)
Williams Harbour
St. Lewis
Mary's Harbour
au-Loup
St. Anthony
Roddickton
Hawkes Bay
Harbour Deep
Cat Arm
Venams Bight
Snooks Arm
Hinds Lake
St. Brendan's
Stephe
Bay D'Espoir
St. John's
lyrood
Ramea
Paradise River